RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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January 18, 1978 **LETTER 719**

Jan. 6, DJIA 793.49; PTI 775; A-D Ratio –21.21
Jan. 13, DJIA 775.73; PTI 752; A-D Ratio –22.07

MARKET DIARY: *January 5*: My 30-week moving average of the advance-decline ratio smashes three preceding bottoms, thereby dropping to the lowest level since early-1975 (see Letter 717, page 2). This action signals a major slump in the breadth of the market.

January 6: The Dow breaks below the 800 level and also below the 796.19 level, the latter being the 50% level of the entire 1974-76 rise.

January 9: The first 6 trading days of 1978 are over. The S&P 500 Composite Average has dropped 4.63%, the worst "first 6 days in January" performance in modern history going back to 1950. According to the "January barometer," the early January action provides strong hints as to the coming year's performance. Conclusion: So far 1978 looks rotten.

January 10: The D-J utility Average closes at 107.04, thereby cracking the preceding November 7 low and completing an ominous top. The Utility Average hereby joins the D-J 20 Bond Average in **joint** major downtrends. Downtrends in **both** of these Averages always presents a negative background for the stock market.

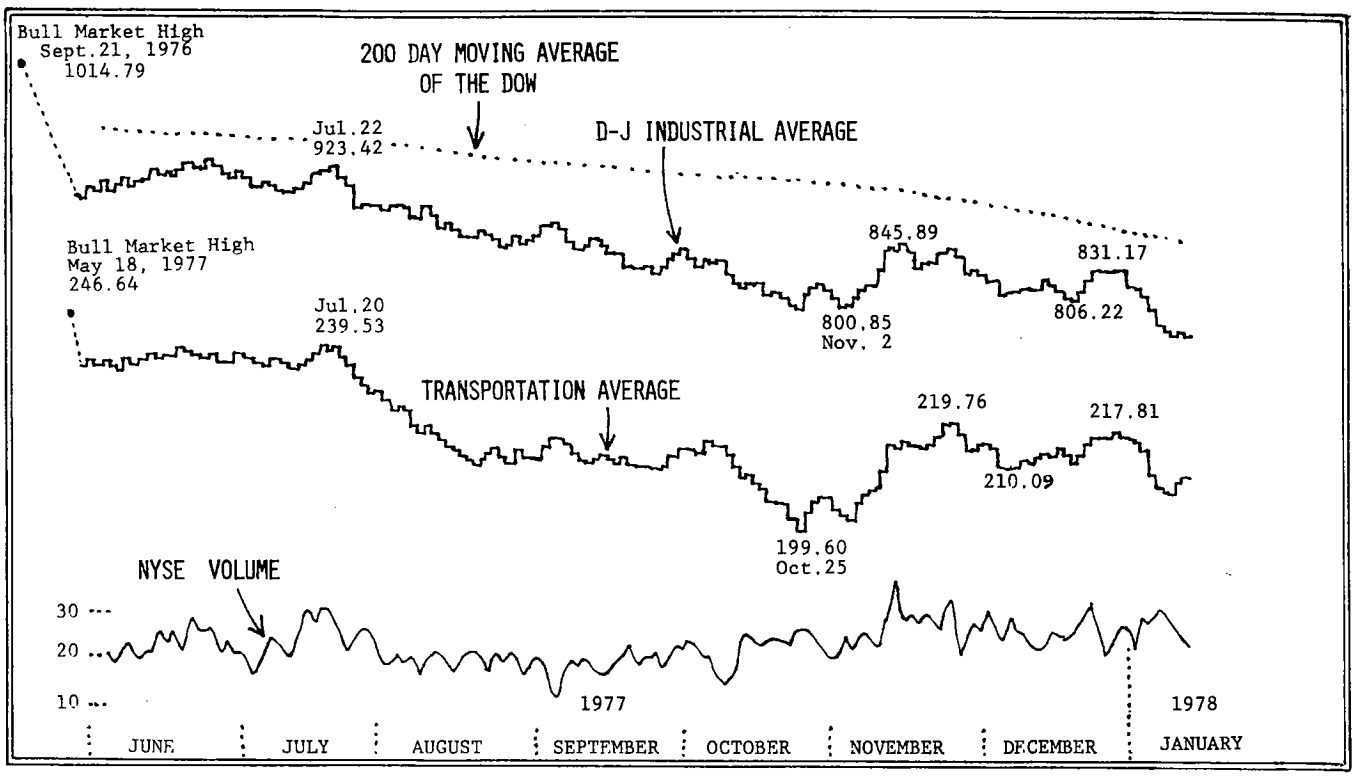
January 11: The Primary Trend Index (PTI), my proprietary index composed of 8 critical indicators, breaks below its November-December lows, thus completing a huge "head-and-shoulders" top. A completed top in the PTI is a forecast of a major decline ahead for the *majority* of averages and indicators.

January 11: The Dow hits 780 (hourly) at 1PM, NYC time. This sets off a major point & figure "sell signal" on my 10X 30 Dow P&F chart (see later section).

THE MARKET: Last week the *Los Angeles Times* quoted a complaining official at the US Treasury to the effect that no matter what the Treasury or the Fed do to defend the dollar, "you never know how those kooks in the foreign exchange are going to react." The statement made my blood boil. "Those so-called kooks in the foreign exchange," I mulled, "put their hard cash on the line every time they make a move. Most of them have forgotten more about markets than the boys at the Treasury or the Fed will ever remember."

And I guess that's the crux of it. Whenever I read anything regarding business or economics or Wall Street, I always look to see **who** said it. If he's not a market man, I write it off as blather. I don't trust men who don't know or understand markets. Market men don't enjoy the luxury of dealing with fantasies and academic dreams. They have to deal with **what is**. If a market man (a trader or investor) is out of touch or guesses wrong, he goes broke. It's as simple as that.

If I had my way I'd make every politician, law-maker, and economist in the land put his own money in the markets (any market) for a period of at least three years before he was allowed to make laws and edicts binding the rest of us. If that happened, we'd see a revolution in American economics—over night.



I'll admit it, the thing I love about the stock markets and the bond markets is that they cut through the bunk and lies and the political hogwash. Markets don't respond to the threats of Presidents, the shouts of Congressmen or the mouthings of Treasury Secretaries. Markets move on supply and demand, and behind that supply and demand lies the perspiration, the thinking, the planning, the intelligence (and of course the hard cash) of thousands of the best and most astute minds on this earth.

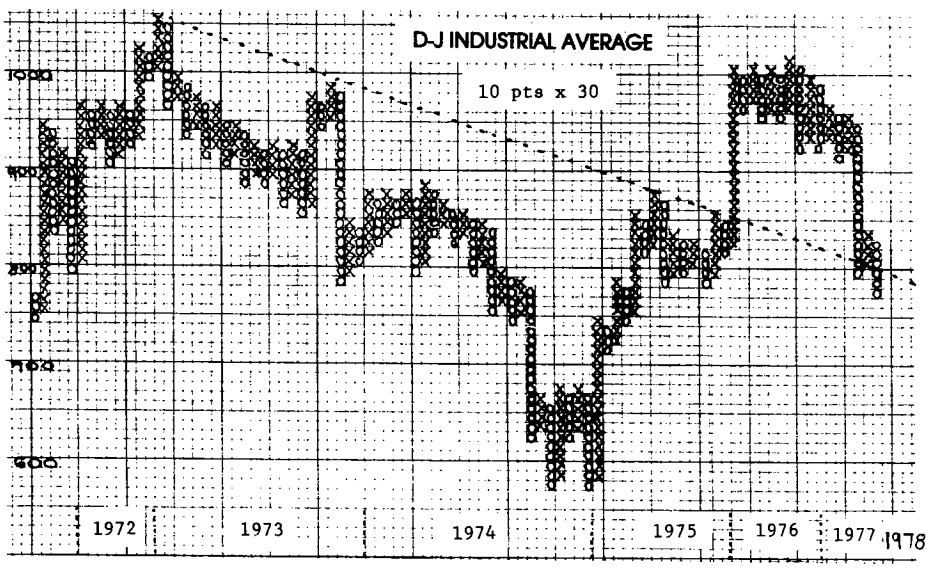
"All right, Russell," you retort, "What is this big reality we're all supposed to be facing?" It is this: while this nation is indulging in a gigantic buying spree, while the US is squandering its energy and resources and running up the biggest mountains of debt and deficits in world history, while all this is happening the stock market is sounding the alarm in the only way it knows how–by heading down and down and down. It will keep going down until the complacent American public finally faces a single frightening fact–we're in a primary bear market of the first magnitude. And the bear market is taking the measure of major economic trouble ahead.

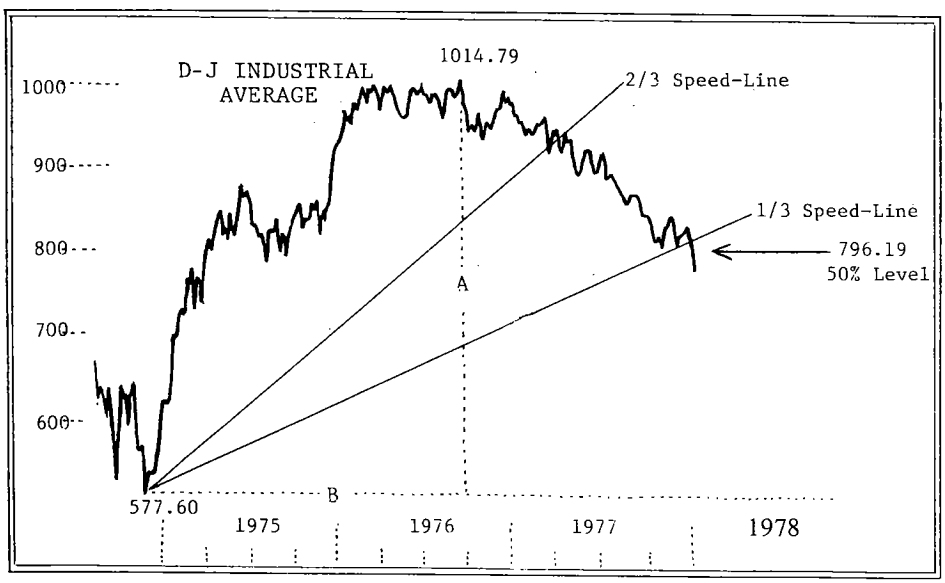
Over the past few weeks the markets have been talking. The most definitive words have been spoken by the D-J Industrial Average, and the words have been so dramatic that I want to go into them in some detail. The near-term action can be seen clearly enough on the daily chart (page 1). But it is the larger technical picture (see charts below) that I want to discuss at this time.

The top chart is my 10 X 30 point-and-figure chart of the Dow. I label it 10 X 30 because each box on the chart is equal to 10 points on the Dow and only rallies or declines of 30 points or more are shown. Thus, the chart presents a very *concentrated* view of the action since 1972. The rows of X's denote rallies, and the rows of O's depict declines.

The importance of the 790-800 level is readily apparent on this chart. Note that a decline was halted at the 800 box in 1971, another decline halted at 790 in 1973, two declines halted at 800 in 1974, and two declines ended at 790 in 1975. More recently, a decline terminated at 800 in October, 1978 +7

Last week the Dow plunged below the earlier 1977 decline low at 800, a very bearish omen. Furthermore, note that the Dow failed to get "support" at the long, declining trendline that I have drawn through the 1973 and 1975 tops. At 780 the Dow smashed all support going back to the 1974 lows. Thus, from the standpoint of this chart, we have a huge "head-and-shoulders" top in the Dow, a break through the support at 790-800, and we now have a very large downside potential.





Turning to the second chart, I show the Dow (last week) breaking through two other very important technical barriers. The first is the 1/3 speed-line, a technical device developed by the well-known Edson Gould. The speed-lines are constructed as follows: first a horizontal line ("B" on chart) is drawn from the 1974 low point of 577.60 on the Dow. Then a vertical line ("A" on chart) is drawn connecting the highest peak on the Dow with horizontal line B. The vertical line is then divided into three equal parts. Trendlines are drawn from the start of the move (at 577.60) through each 1/3 mark.

Experience has shown that the 2/3 speed-line tends to offer support. However, if the price movement drops below the 2/3 speed-line, it will usually come down and test the 1/3 speed-line, which tends to offer support. If the 1/3 speed-line is violated, the price movement will often decline to the level from which the entire movement began. In this case that would be the 1974 low.

On this same chart I have included a horizontal line which I have labeled the 50% level. I have explained the **50% Principle** many times. This is the principle which states that following an *extended* price movement, it is extremely important what the price does at the halfway or 50% level. During a major advance, if the price will not hold ("support") at the 50% level, then the implication is that the bearish forces have taken over. In such cases, it is not unusual to see the price decline to (or near) the lows from which the entire advance began.

In the current instance, we can very properly apply the 50% Principle because the Dow rise (from late-1974 to late-1976) was extended in both time and duration. The halfway level of the entire rise was 796.19, and I have stressed that level repeatedly in Letter after Letter. On Friday, January 6, the Dow broke through **both** the 1/3 speed-line and the 50% level. This, as far as my studies are concerned, was a most bearish action.

Question: I see why you feel the recent market action is bearish. But how far down do you see the Dow going?

Answer: There's no sense playing games with my subscribers. I honestly don't know. Technically, the charts allow for an extended Dow decline to, or even below, the 1974 lows. Whether that will happen no one alive knows. My guess is that the Dow and the market will now decline to "the exhaustion point" on the downside. That's a place that I hope to ***identify*** rather than predict. In the meantime, my subscribers and I are watching the market go down the only way I ever want to watch it go down–and that's from a seat **on the sidelines.** If you're still holding stocks, then you're wasting your time reading this service.

OUT-OF-CONTROL: I've dwelled on this subject in recent Letters, but I want to present the picture in a slightly different way. At any rate, I'll make this statement, and stand on it! "There's only one growth industry today, and that growth industry is DEBT. Debt is the current economic phenomenon of the US and, for that matter, of the rest of the world."

To my mind, two things are behind the growth of US and world debt. (1) *Greed*, a function of the average man's insistence that he "get it **now.**" The classic definition of maturity is the willingness to put off current pleasures for future well-being. On that basis, I rate today's world as infantile. Today, nothing is put off. The populace demands happiness and abundance now, and the politicans rush to oblige. Result–we borrow from tomorrow to supply today (which, to my mind, is pure greed).

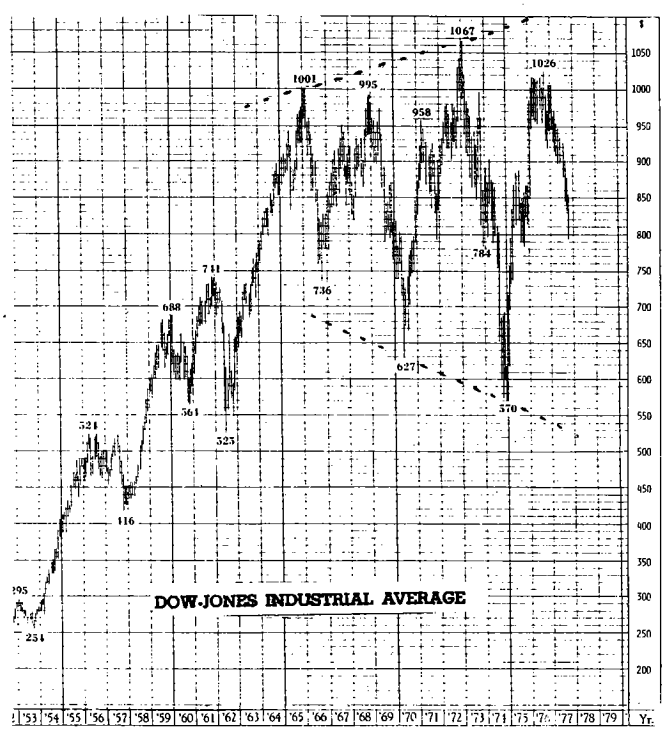
(2) The second reason for the explosion in world debt is the current "pain phobia," the *avoidance of pain*. This is one of the most basic principles of psychology. In fact, the basis of resistance (in psychotherapy) is the patient's refusal to feel any pain. And the same principle applies to economics. Unfortunately, at this point, there is only ONE WAY to reduce the staggering totals of debt, and that is to accept pain. But will any one even entertain that idea? Not a chance! The pain, of course, would be the hardship of "paying it back" and "doing without." This is something every bankrupt faces, but it is a phenomenon no politician or constituent will tolerate.

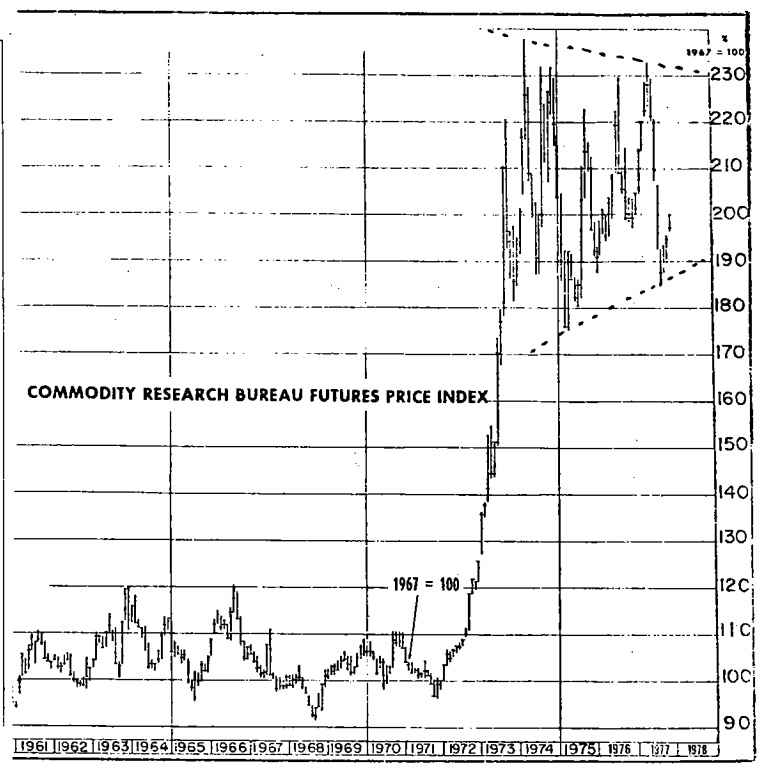
The ultimate result of these two emotions, greed and avoidance of pain, is going to be either (a) hyper-inflation and then a deflationary collapse or (b) a simple deflationary collapse. In my mind, one of those two alternatives must come. The variables are (1) timing: "when will they arrive?" and (2) intensity, "how much hyper-inflation may occur first, and how great a deflationary collapse will follow?"

I have been watching two charts develop for a number of years, but I have never published them together. I want to do this now. One chart is the monthly range of the D-J Industrial Average over the past few decades (courtesy of *Horsey*). The other is the monthly range of a representative list of commodities, covering the past few decades (chart courtesy of *Commodity Research Bureau*). The picture we see here, in my mind, is astounding.

Note that the Dow, beginning in 1966, started a series of wild swings with each swing averaging about 1.8 years in duration. This, to my mind, is a picture of a price structure which is moving increasingly towards a situation which I label "out-of-control." Note that the current price of the Dow is substantially below all the tops going back to 1966.

The commodity index topped out in 1974. Since then the successive commodity swings have been even more rapid and violent





than the stock market swings. The latest rally appears (so far) to be weak, having failed to recover half the losses since the 1977 high. I view the commodity index as a price structure running frantically up and down within a giant triangle. These swings are the commodity market's attempt to measure the possibilities of inflation, then of deflation. Obviously, the index is telling us that the final verdict is not yet in.

My guess is that the ultimate resolution of both of these charts is fast closing in on us. I would also guess that they will move **together**, either on the upside or the downside.

There are two opposing forces now pressing in on stocks and commodities. The first is inflation, the Government's desire to "keep it all moving up." This is resulting in inflation in many areas generated by a ballooning of the nation's money supply. But there is an opposing force, and that is the **pressure of debt**. The spiraling debt and the massive and increasing cost of servicing that debt is a force of deflation. And that's what I think these two extraordinary charts are showing us. I believe these two charts are tragic in their implications. They do not imply a healthy situation. They do not present a profile of slow, deliberate, healthy growth. Rather they portray an explosive and tangled situation, a situation characterized by neurotic frenzy and stress.

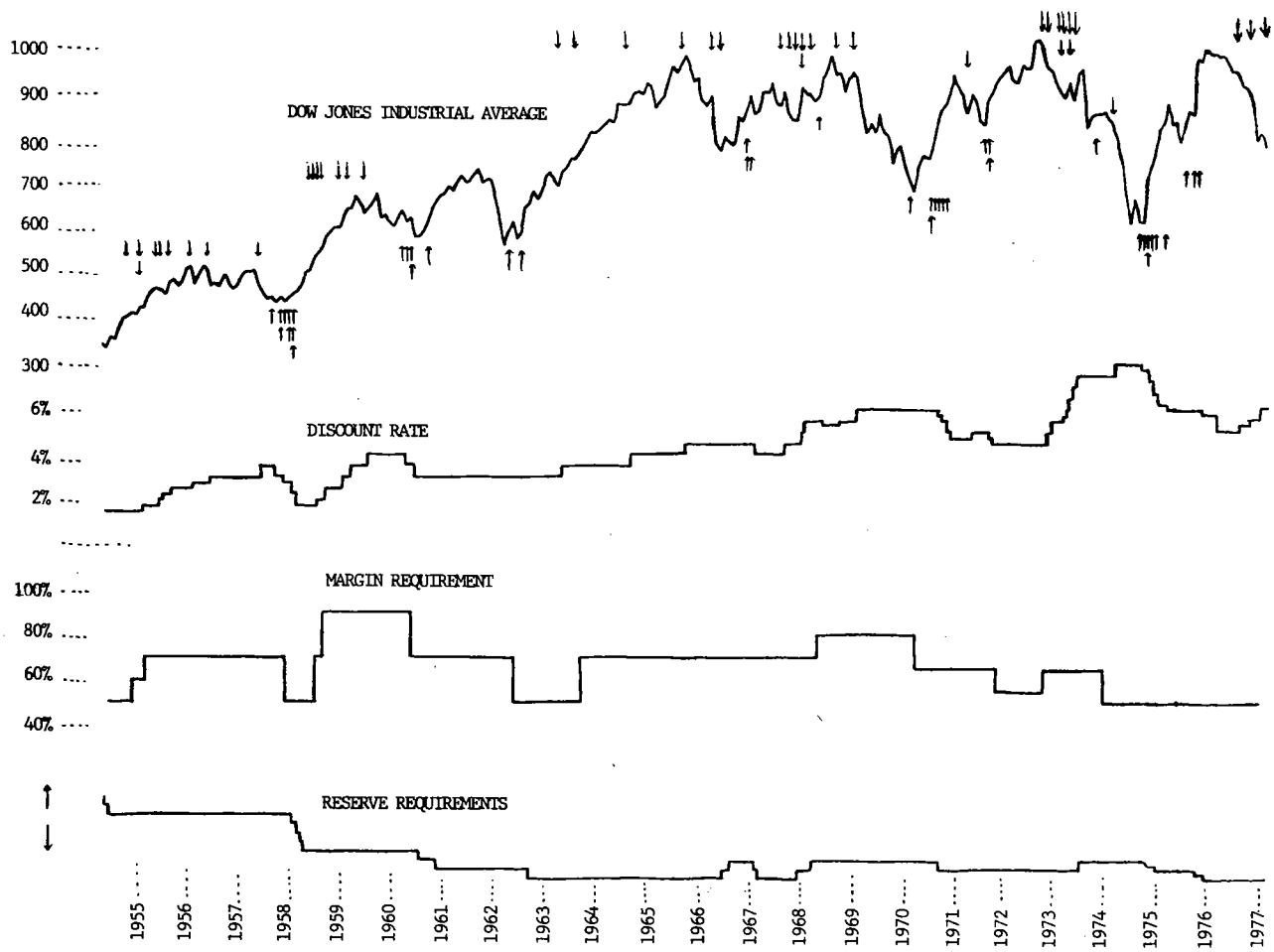
One of the sad results of all this is that the quality of life in the US is now deteriorating. As a friend told me yesterday, "The Government takes half my income in taxes and it destroys the other half through inflation. The whole thing is becoming a joke!"

A joke, perhaps, but a very bad joke. It can all be seen, I believe, in the current obsession with the super-natural, the occult, the "visitors from outer space," and space fantasies. Consciously or unconsciously, people are running **from the facts of life**. They are escaping into dreamland and "safe problems." Interest in astrology is now intense. ESP is a current fad. And the biggest movies of he day are "Star Wars" and "Close Encounters." Of course, what people are avoiding are encounters of the **real** kind. "Reality" has, in my opinion, become the dirtiest word in the language.

THE FED MOVES: This is a chart which I originally carried in Letter 668. The chart was prepared by Ned Davis of J. C. Bradford Co., and I want to update the chart here. The Federal Reserve Board possesses three basic tools with which to manipulate the money markets. All three tools have to do with CREDIT. The Fed can move the discount rate up or down, they can change margin requirements for stock purchases, and they can change the reserve requirements for the member banks.

Almost all of the Fed's manipulations over the past ten years have been generated in order to stimulate or put the brakes on the economy (although stock margin changes are more apt to stimulate or control activity and speculation on the stock exchanges). The chart depicts all the CHANGES in the three categories. At the top of the chart we see the D-J Industrial Average. Each down-arrow denotes a "braking or controlling" change in any of the three categories. Each up-arrow denotes a stimulative move by the Fed in any of the three categories.

Note that the Dow never *goes very far against* any cluster of arrows. At times, such as during 1955-56 the market will "fight" the Fed, but it's not long before the money changes brought on



by the Fed's action send the market in the direction of the arrows.

I want to bring readers' attentions to two items at this time. First, the Fed raised the bank discount rate last August from 5¼ to 5¾. In October the Fed raised the discount again, this time to 6%. Friday, January 6, the Fed raised the discount rate for the third time, and here we had a jump to 6½%. The latest discount boost was in response to the falling dollar, and this represented the first time the Fed was forced to move because of dollar weakness in many years.

The picture on the chart is clear enough. We now have *three down-arrows*, and this with the Dow in shambles and the rest of the market coming down. If history means anything, we will not see a major market advance until the arrows begin pointing up again.

One factor I want to mention: note that stock margins are still at 50%, this despite the fact that margin debt on the NYSE is now at a record $9.6 billion. The Fed, anxious to get the stock market booming during 1974-77, never raised margin requirements. This places the market in the fragile position of having a huge mass of margin debt outstanding with margin requirements at a very low 50%. Should the main mass of stocks continue to decline (and I think they will), we could get tremendous pressure on margins with a result that there would be many forced sales.

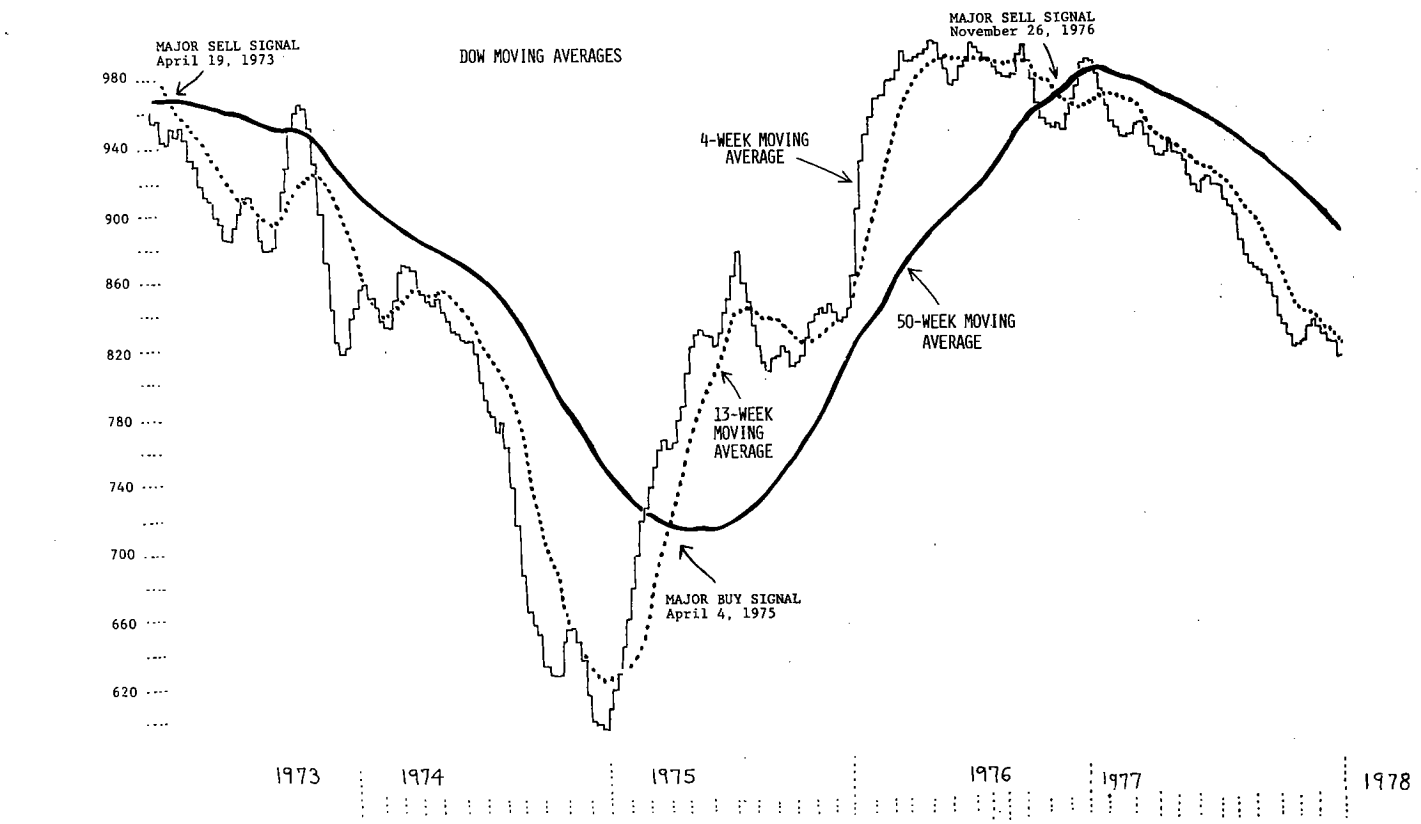
MOVING AVERAGES: This is a study which has appeared many times in these reports, and I feel it's time for an update now. What we are dealing with here is three moving averages (MA's) of the Dow. The heavy black line is a long-term or "primary trend" average based on the average price of the Dow over the last 50 weeks. The dotted line is an intermediate term average based on the last 13 weeks. The thin line is a short term average based on the past 4 weeks.

The fairly frequent buy or sell "alerts" are given when the 4-week MA crosses above or below the 13-week MA. I don't usually act on the alert signals–unless they are in the primary direction. Since I believe the primary direction of the market is now bearish I would not act on a buy alert. In all of 1977 and so far in 1978 there have been no buy alerts, so we don't even have any decisions here.

The really important part of this study is the relationship between the 13-week and 50-week MA's. When the 13-week MA crosses above or below the 50-week MA we receive the major buy and sell signals. These signals do not come frequently, as you can see on the chart. In fact, since early-1973 there have been only three major signals, a sell signal on April 19, 1973, a buy signal on April 4, 1975 and a sell signal on November 26, 1976.

Obviously, using the major buy and sell signals on this method is not going to get you in the market at the bottom and out of the market at the top. No mechanical system will do that. But I use the MA's as a sort of "fail-safe," and I never like to be on the wrong side of the major signals. If you had sold the Dow (and theoretically sold it short) on the April 19, 1973 signal, bought the Dow back on April 4, 1975, then sold it out (and short) on November 26, 1976, you would have at the time of this writing a total gain of 581.90 Dow points. That amounts to 116 Dow points per year since early 1973, a better record, I dare say, than most professionals have produced over the 5 years since April, 1973.

At any rate, at present the two important MA's, the 13-week and the 50-week are still declining. They are also 65 points apart, which means that it will take TIME to produce a major bull signal, even if the Dow starts on a persistent rising trend tomorrow.



The 4-week MA has been in a corrective phase, and it has been flirting with the 13-week MA for the past 6 weeks. Strangely, however, the 4-week MA has not been able to register a buy alert in all that time. Last week all three MA's moved to new lows, the 4-week to 809, the 13-week to 818, and the 50-week to 883.

NOTES & QUOTES: I can't prove it, but my own feeling is that the *basis* of the two-tiered market was **complacency** and over-confidence. With the Dow going down ever since September, 1976, the rallying power or holding power of "the rest of the market" has been extraordinary. But the Dow stocks are the stocks that tend to *move the economy*. The Dow "biggies" have to do with the real basics: oil, steel, chemicals, retail, food, metals. With the Dow Industrial Average having lost 238 points as of January 11, 1978, I believe the resistance of the secondary and lesser stocks represents "hopes and wishes" on the part of amateur investors.

On January 11 the AMEX lost 2% of its value in a single day of trading! I believe that is a harbinger of things to come. The AMEX issues and the secondary issues don't have anything like the liquidity of the Dow stocks. When the reason for the Dow decline becomes apparent, I expect a wide-open smash in the secondary issues. What could the reason for the Dow decline be? I've been saying all along it's problems with debt and deficits. My guess is that we're moving into recession. But I don't think there is more than a handful of analysts or economists in the nation who believe that (which is fine with me, since they are seldom right anyway).

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My two market "over-bought and over-sold indicators" (see last Letter, page 2) have moved out of the over-bought area and towards the over-sold area. But the market is **not** over-sold yet. Furthermore, let's remember that in a bear market, the market can **stay** over-sold for days and even weeks.

* *

I got a smile out of this one. In going through *Value Line* this week, I came across this regarding **International Banknote**. *"Printing and engraving of foreign currencies is the company's mainstay. Backlogs are high. Global inflation is increasing the demand for paper money."* There you are–right from the printer's mouth!

DREAMS: Being Jewish and married to a Presbyterian (with a daughter who was just Baptised a Mormon), I tend to be very open-minded about people, races, and religions. But I had another of my strange dreams last night. This one is so crazy that I hesitate to repeat it, but I have to tell somebody so here goes:

It's about Sheik Abu Huzad, finance minister for one of the big OPEC nations. He's talking to his overseas broker, Ziggy, who believe it or not, is a Jewish broker with a NYC stock exchange firm. They call him Ziggy because he is famous in inner circles for zigging when he should zig, and zagging when he should zag. He is also famous for keeping his mouth shut. At any rate, Huzad is talking to Ziggy on the Trans-Atlantic cable.

H. Ziggy, get the accounts ready, we will probably be going heavily into your stock market somewhere between March and June.

Z. But Sheik, you know I already have everything in T-bills and ready to go. Don't worry, everything is read-eee. But if you don't mind my asking, what are you thinking about? Stocks in June?

H. Ziggy, I can trust you, so here's the plan. When this market looks as if it's nearing the bottom, we buy everything in sight, I mean everything. We buy our heads off, and we don't stop until we own an assorted 10% of the NYSE!

Z. Good Lord, Sheik Huzad, then what? I know you've lost ten fortunes holding collapsing US dollars, but what good will buying a caved-in stock market do? I don't understand.....

H. Ziggy, please, use your nebbish head (Huzad loves to throw in a Jewish expression here and there); when we're loaded with stocks we drop the price of oil 20%. Then we sit back and watch the market go skyward like a Roman Candle–along with our dollars. When the Dow doubles, we sell. It's as easy as that!

Z. Sheik, you're a genius. And I thought the Jews had all the brains!

GOLD-SILVER: They both look good. But as usual, the US is trying to knock down gold via the rumors-and-threats approach. The latest rumor is that the Central Banks may extend their "gentlemen's agreement" not to buy gold–extend it to later this year (actually, the agreement is supposed to terminate in February). If that doesn't work, the US may threaten to sell more of its own gold (although I don't think anyone really believes in that one anymore).

At any rate, gold is in a primary bull market, as you can see on the charts (page 7). And as the price movement does in all primary bull markets, it is walking up the proverbial "wall of worry." I am including my weekly semi-log chart, a chart which shows the price of gold and silver (weekly) in terms of *percentages*. Thus, the two metals can be properly compared (weekly ratio scaled chart). Note that gold has formed a huge "head-and-shoulders" bottom pattern–or if you wish, a massive "*triangle of accumulation.*" This formation looks very powerful to me, powerful enough to send gold (in due time) up to and well above the old 1974 high of 197.50.

Silver does not look as strong as gold, but it is nevertheless strong and moving above the upper trendline of the triangle. In my opinion silver is being "dragged higher" by the power of gold. Silver is a semi-precious, semi-monetary metal, and will (1) tend to follow gold, and (2) tend to slide if industrial consumption declines. Thus, I prefer gold to silver in the current situation.

Referring to the lower chart, I have shown daily gold plus the 4-week and 13-week moving averages (MA's), while the heavy black line is the very long-term or 50-week MA (the 50-week MA can be likened to a "primary trend" line for gold). As of this mailing, all three MA's are at **new highs** for the entire move, and I take this as a bullish sign. The most sensitive of the three MA's, the 4-week MA, is now 168, thus gold is holding well above even this short-term MA. One comment: I *like* this kind of back-and-fill, push up, consolidate, type of gold action. It has a "labored" look, but it is real bull market action.

As I've explained in recent Letters, the weakness in the dollar is beginning to have an adverse effect on European and Japanese exports (foreign goods get expensive as the dollar declines). Thus, recession is a word that is beginning to creep into overseas vocabularies. Furthermore, support operations for the dollar overseas are exerting inflationary pressure on foreign money supplies. This means that shortly, the yen, the mark, the francs, in fact all paper monies should accelerate their decline **against gold**. This could bring a measure of strength back to the dollar, but I believe such strength would be temporary.

At any rate, the overriding concept at this time is the decline of **all** of the world's fiat (paper) currencies against real money or gold. If world recession strikes (and I think it will), the urge to "re-flate" will hasten the paper-money printing process, and gold will become more wanted than ever before. To my mind, the "sleeping giant," the hidden fire could be the gradual recognition by the average American that "gold is real money" and that "it's safe to own gold in the form of coins or jewelry."

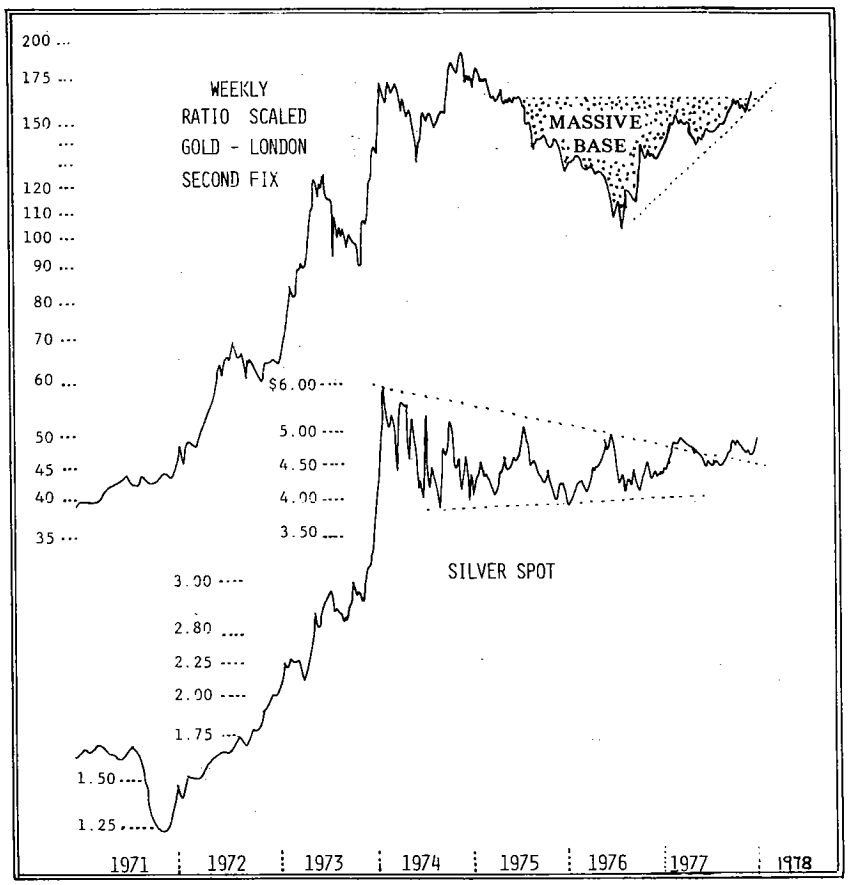
Remember, for 40 years gold was *forbidden* in modern coin or bullion form in the US. For 40 years gold was talked down. It takes a long time to reverse a 40-year habit. But I believe the "anti-gold habit" is now in the process of being reversed. When that really happens we're going to see gold move higher—probably a lot higher.

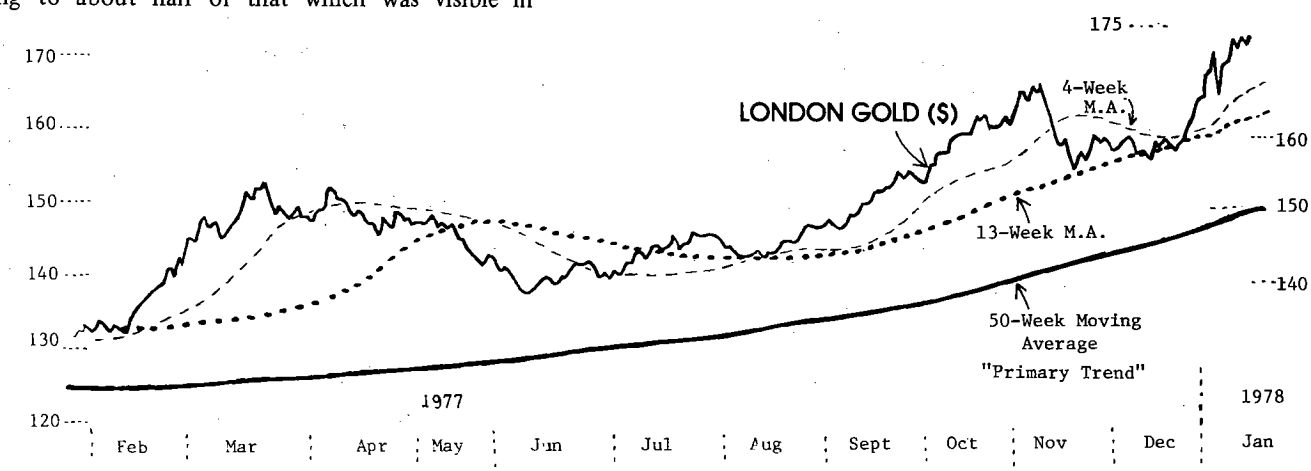
For subscribers, I once more suggest holding gold in the form of modern coins or bullion through your broker. Coins should be held in your vault, bullion at a bank (but buy your bullion through a broker and do not take possession of your bullion or it may have to be assayed when you sell it). As for the gold stocks, I personally like to limit the variables, and holding gold coins or bullion gives us only *one* variable—will the price of the metal go up or down? Holding gold stocks gives us many variables, will the mine make money, will the labor force strike for higher wages, will there be trouble in S. Africa (or Canada), will the ore grade hold up, will the mine's management use their brains, and so forth. The coins and the bullion will do the job—in the simplest way.

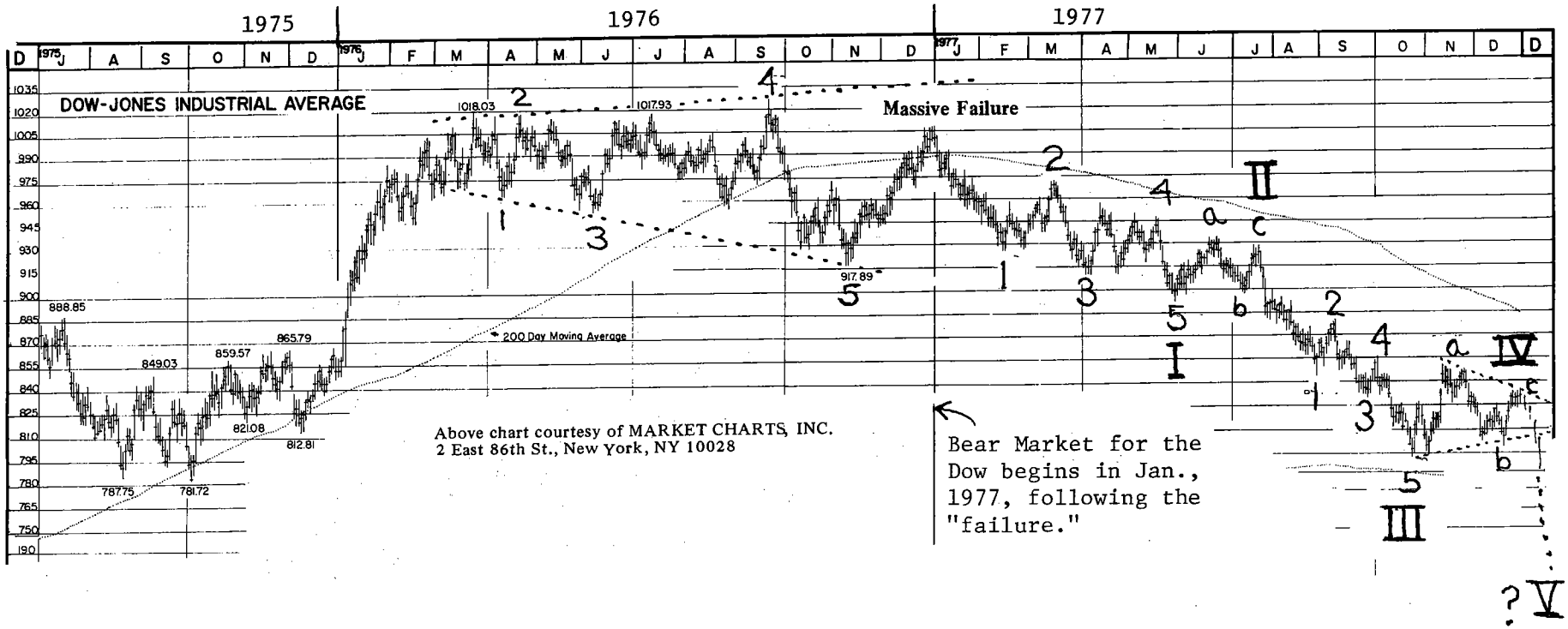
LATE NOTES: Sorry about the extra two pages I'm asking you to read with this mailing, but I've got a lot to say, and I may as well print it and mail it. The stock market could be getting "very short-term" over-sold, but nothing like a major bottom is in sight. If we get a rally here, leave it alone. A really profitable turn, even for the intermediate term, isn't in sight yet. The odd-lotters have cut back dramatically on their selling—to about half of that which was visible in December, and this is negative for the market. The money (bond) markets are still weak, another negative indication. The business news is generally "hopeful" with few if any economists predicting adverse conditions for 1978. This is hardly the kind of atmosphere one expects at a bear market (or even a secondary) bottom.

Watch the Transportation Average here; it has *not* yet violated its October 25 low of 199.60. The Transports have lagged the Industrials on the downside ever since late-1976, but non-confirmations are always worth watching carefully.

Meanwhile, sit with your positions of 80% or more available assets in T-bills with the remainder in gold coins. Impatience and a refusal to believe what is happening are the two great asset-destroyers. There's a time for everything, and this is a time for great caution.







DOW & ELLIOTT: I want to update my Elliott interpretation of the market, a subject which I last discussed in Letter 714. As older subscribers know, Elliott and Fibonacci are "hobbies" of mine, but they are hobbies which occasionally help me tremendously with my market analyses. I also find (believe it or not) that a fairly large number of my readers are Elliott students.

At any rate, Letter 714 noted that "since the failure in December, 1976, the Dow has moved down in what is either a major Elliott correction or an Elliott bear market. I made that statement because of the extraordinary "failure" following point 5 (Nov. 1976) in the complicated triangle correction pattern (as seen on the chart).

The Dow turned up from its November, 1976 low in what "should have been the beginning of a final, major Wave V." This is the wave that we expected would end the bull market which began in late-1974. But in January, 1977, a most extraordinary *failure* occurred. The failure took place when the Dow was unable to better the upper trendline of the triangle. At that point, at the point of that dramatic failure, the Dow began a new bear market.

Elliott bear markets take the form of large A-B-C downward patterns (A and C are down-waves while B is a rising or corrective wave). The A and C waves may be divided into a number of smaller waves, and I believe we have completed most of down-wave A now, with only final leg V of Wave A ahead. After leg V (and Wave A) is completed, we should get a big upward correction which will probably take us up during the second half of 1978. Then declining Wave C should develop during 1979, thereby completing the bear market.

The chart shows leg I (divided into 5 smaller movements) ending in late-May, 1977. We then had a very weak "flat" correction which took the Dow to a July peak, and this a-b-c pattern ended at II. Next the Dow declined another series of 5 minor legs down to the late-October low of 801.54 (III on chart).

The movement from the November low into December (the final little a-b-c on the chart) was another extraordinarily weak correction with a "failure" at point "c" (I would have expected c to be above the 845.89 point at point a, but it became obvious that the correction at IV was turning into a weak triangle instead of a stronger upward zig-zag).

Conclusion: I would now expect a final Wave V to take the Dow down to new lows in a 5-movement decline. It should be remembered that the last down-wave or the 5-wave in a cycle is frequently the most intense. Thus, the coming leg-5 declining pattern for the Dow (which should wind up Wave A) should be a nasty one, indeed.

COMMENT: There has been very little written on the subject of technical failures. But over the years I have found that failures can be as valuable for predictive purposes as successes. In other words, where a well-defined pattern breaks down or fails to complete itself, the inference can be drawn that "something has changed" and that the force that was expected simply faded out. In such cases, a powerful reversal of the prevailing trend can be expected. (Of course, the Dow Theory non-confirmation principle is really a variation on the failure thesis. For instance, where one Average persistently fails to confirm the other, a reversal of trend will almost always develop).

NEXT MAILING: January 27th